TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: June 30, 1999 Actuarial Valuation ITEM NUMBER: <u>9b</u>

Cash Balance Benefit Program

ATTACHMENT(S): 1

ACTION: X MEETING DATE: March 9, 2000

INFORMATION: ___ PRESENTER: Mr. Derman

SUMMARY

Section 26211 of the Education Code requires an annual actuarial valuation of the benefits provided under the Cash Balance (CB) Benefit Program of the State Teachers' Retirement Plan. The Consulting Actuary performs this valuation.

An actuarial valuation identifies the extent to which the current and future assets of the fund are sufficient to pay the benefits promised by law. In addition to the Normal Cost Rate, which represents the cost of additional liabilities resulting from future service, the actuarial valuation identifies the Actuarial Obligation for benefits to current members and benefit recipients, which represents the cost of liabilities associated with service already performed. The Actuarial Obligation for benefits is then contrasted with the actuarial value of current assets to assess the adequacy of past funding. If the actuarial value of current assets is less than the Actuarial Obligation for accrued benefits, an Unfunded Actuarial Obligation exists. An Unfunded Actuarial Obligation can arise in the CB Benefit Program from investment returns that are less than the minimum interest rate paid to program participants. The valuation also indicates the amounts available to fund the Gain and Loss Reserve and any additional earnings credit to be declared by the Board.

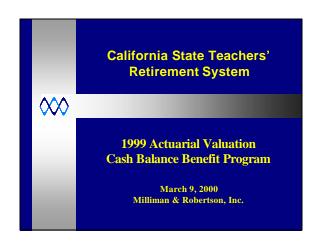
The Consulting Actuary, Mark O. Johnson, FSA, of Milliman & Robertson, Inc. will present the Actuarial Valuation Report as of June 30, 1999 to the Board.

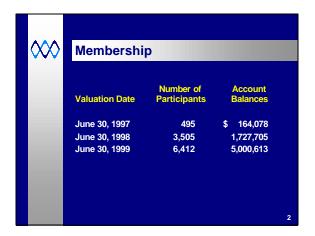
RECOMMENDATION

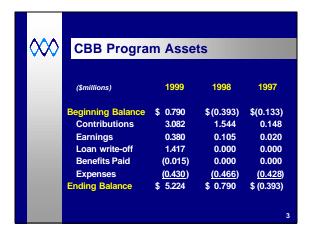
The staff recommends the Board adopt the June 30, 1999 Actuarial Valuation Report.

PROPOSED RESOLUTION OF THE TEACHERS' RETIREMENT BOARD

SUBJECT: Cash Balance Benefit Program Actuarial Valuation Report					
RESOLUTION NO					
WHEREAS, Section 26211 of the Education Code requires an annual actuarial valuation of the System's assets and liabilities with respect to the Cash Balance Benefit Program; and					
WHEREAS, Milliman & Robertson, Inc. has performed the necessary actuarial calculations using the June 30, 1999 data provided by the System; and					
WHEREAS, the Board has reviewed the June 30, 1999 Actuarial Valuation Report presented by Milliman & Robertson, Inc.; therefore, be it					
RESOLVED that the Board adopt the accompanying Actuarial Valuation Report from Milliman & Robertson, Inc.					
Adopted by: Teachers' Retirement Board					
James D. Mosman Chief Executive Officer					









CB Plan Expenses

- \$1 Million Loan
 - From DB Plan
 - For Start-up Administrative Expenses
- Financial Merger of CB Plan and DB Plan
 - Loan discharged
 - \$1,417 million write-off
 - Includes accumulated interest
 - Expenses after January 1, 1999 are allocated based on invested assets



CB Plan Expenses

- CB Plan Expenses Prior to January 1, 1999
 - Charged for direct expenses
 - Charged for overhead from July 1, 1998, through December 31, 1998
- Loan Not Sufficient
 - Administrative expenses through the end of 1998 exceeded \$1 million
 - Primary reason for actuarial loss in 1998-99 plan year



Administrative Expenses

(\$millions)

Period Ended

June 30, 1996 \$ 0.128 June 30, 1997 0.393 June 30, 1998 0.397

December 31, 1998 0.387 includes overhead **Total Expenses** \$ 1.305

Loan for Expenses 1.000 **Actuarial Loss** \$ 0.305

∞	Actuarial Balance Sheet				
	(\$millions)	1999	1998		
	Account Balances	\$ 5.001	\$ 1.728		
	Actuarial Value of Assets Unfunded Actuarial	\$ 5.224	\$ 0.790		
	Obligation (Surplus) Total Resources	(0.223) \$ 5.001	0.938 \$ 1.728		
	Total Nesources	ψ 3.001	y 1 .720		
				7	

≫	Reconciliation of Surplus					
	(\$millions) June 30, 1998 Unfunded Obligation \$ 0.938 Adjustment for Plan Merger (1.293) Additional Earnings Credit 0.009 Net Actuarial (Surplus) \$ (0.346)					
	Investment Earnings	8				

∞	Gain and Loss Reserve					
	(\$millions) Actuarial Surplus	1999 \$ 0.223	1998 \$ 0.355			
	Gain and Loss Reserve Beginning of Year Adjustment for Merger Additional Earnings Credit Allocated to Funding End of Year	0.346 0.000 * * \$ 0.346	(0.557) 1.293 (0.009) (0.381) \$ 0.346			
	Unallocated Gains (Losses)	\$ (0.123)	\$ 0.000 ₉			



Board Decisions

- CB Plan Expenses Prior to January 1, 1999
 Decision on overhead expenses of \$242,000

 - Board could decide not to charge to CB Plan
- Additional Earnings Credit
 - After Board decision on overhead expenses
 - Decision Matrix in April
 - Gain and Loss Reserve
 - Review Board's Goal
 - Updated data on current year contributions

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Additional Earnings Credit